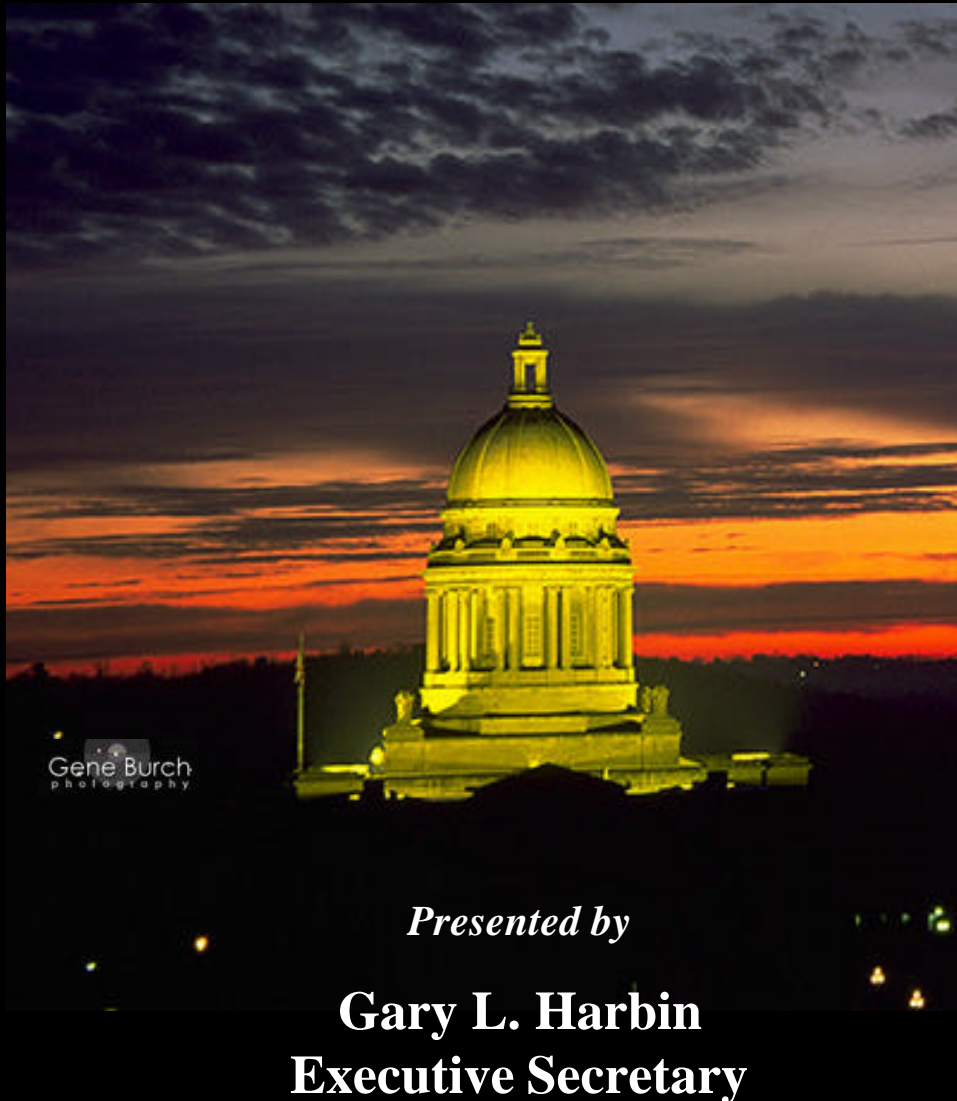


Kentucky Teachers' Retirement System



**“Green River
Regional
Educational
Cooperative”**



January 4, 2005

Kentucky Teachers' Retirement System



*Established in 1938,
KTRS is recognized as one of the*

*Finest
RETIREMENT
SYSTEMS*

in the nation for teachers.

Field of Membership

as of December 2004

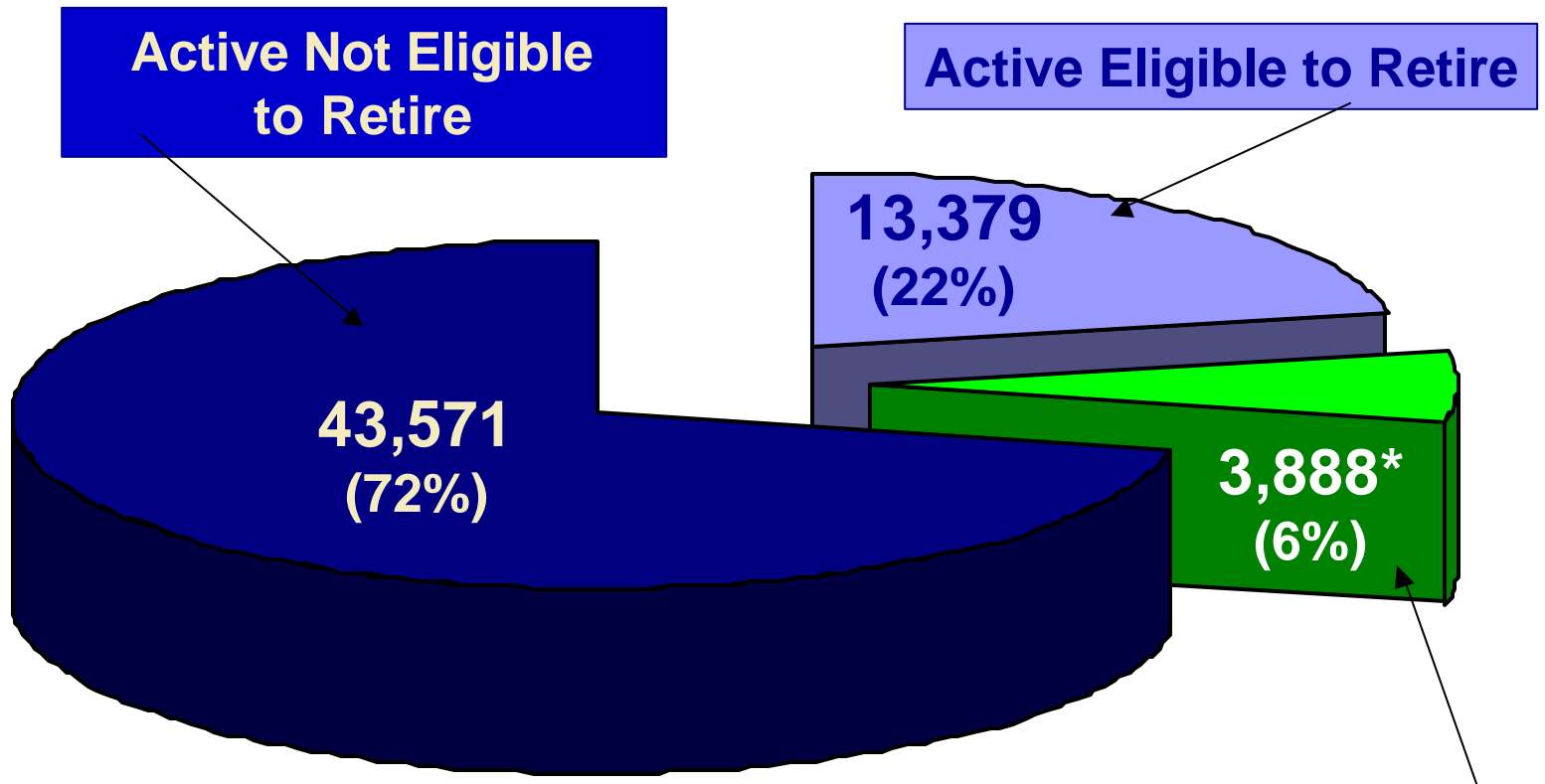
Active	0 – 26 Years	Non-eligible	43,571
	27+ Years*	Eligible	<u>13,379</u>
	Total Active		56,950
	Sub/PT/Retired Return to Work		<u>15,751</u>
	Total Contributing Members		72,701

Inactive	9,344
Retired, Beneficiaries & Survivors	37,015
Total	119,060

** and/or age 55 with 5 or more years of service within the next fiscal year*

Field of Membership

as of December 2004

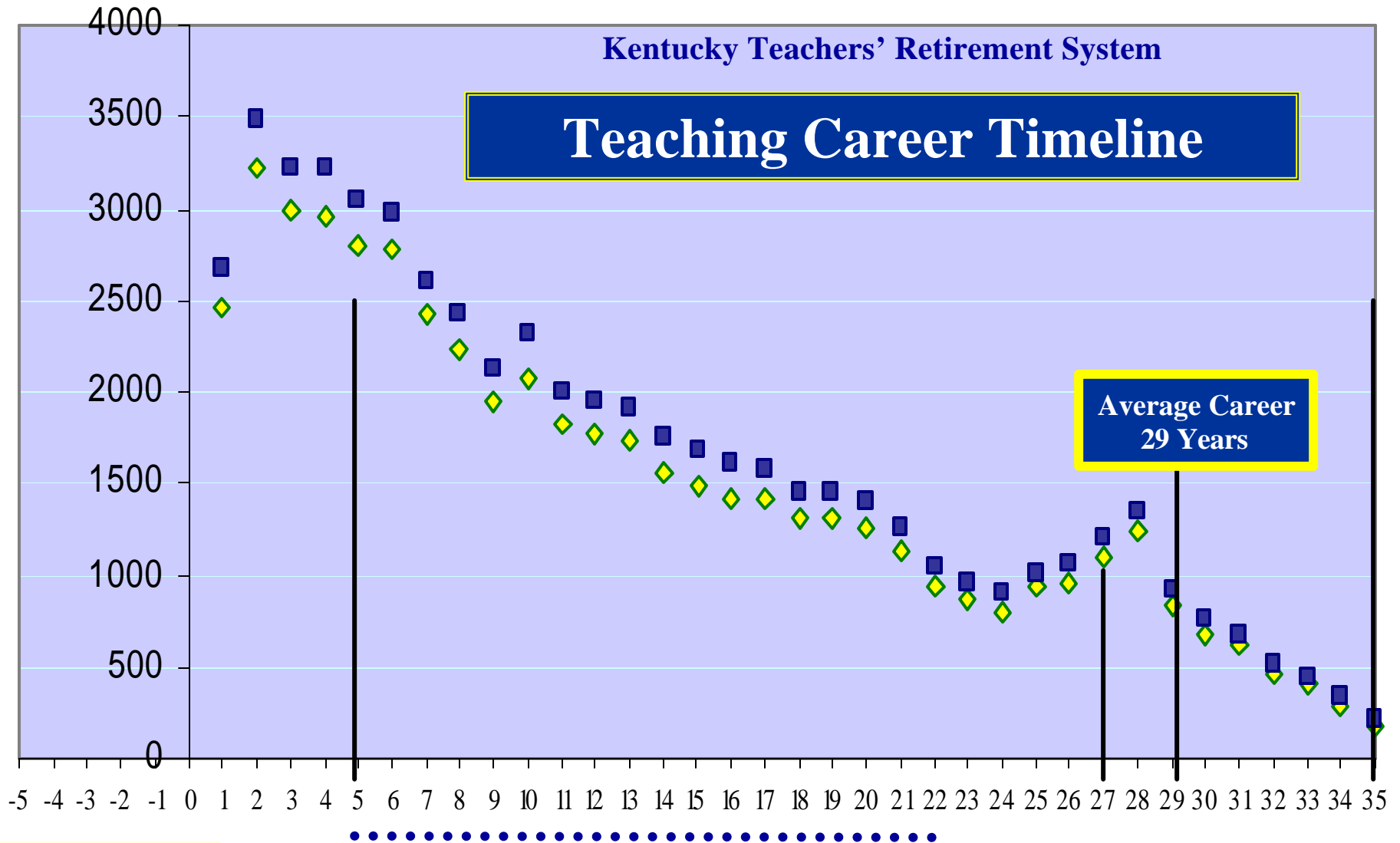


Part-time & Substitutes

**This represents the full-time equivalent positions of 15,751 substitutes, part-time & retirees returning to work*

Kentucky Teachers' Retirement System

Teaching Career Timeline



Average Career
29 Years

*Substitute
Teaching*
1-5 yrs before
actual full-time
status begins

5

Early
Career
1-5 years

Mid-Career Teaching
5-22 Years

22

27

29

Eligible for
Retirement 27 Years

35

KTRS is a Comprehensive Retirement Plan

Benefits during your employment years:

- Provides benefits in the event you become disabled
- Provides benefits to your survivors in the event of your death
- Life insurance benefit of \$2,000

KTRS is a Comprehensive Retirement Plan

Benefits during your retirement years:

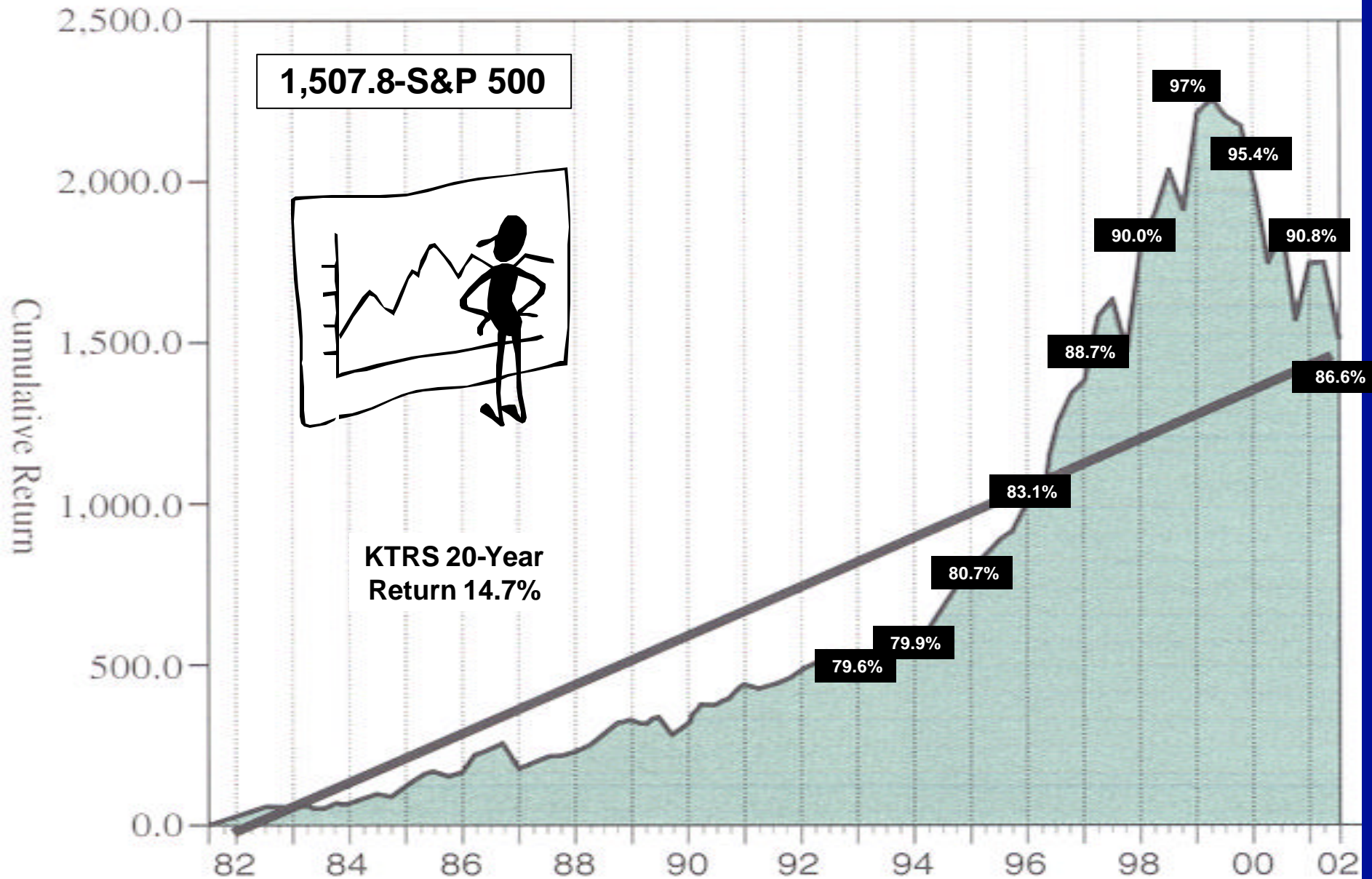
- Defined benefit plan with lifetime guaranteed retirement benefits
- Life insurance benefit of \$5,000
- Annual cost-of-living increases (COLA)
- Retiree medical benefits
 - *One of 3 teacher retirement systems in the nation providing this high level of medical benefits*

Contributions to the KTRS

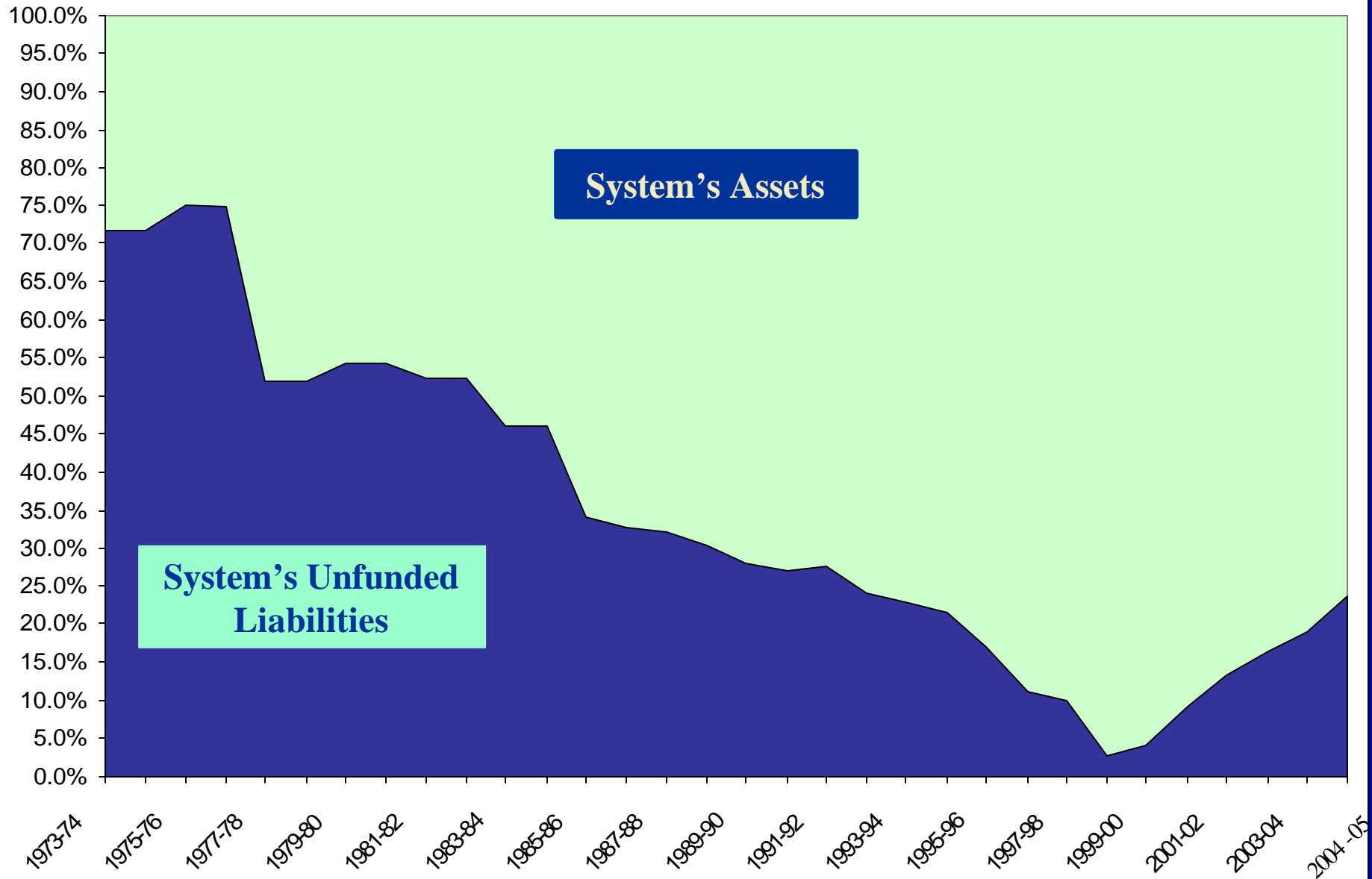
	Total	Medical	Retirement & other benefits
		
Employee	9.855%	0.750%	9.105%
Employer/State	13.105%	0.750 %	12.355%
	<u>22.960%</u>	<u>1.500%</u>	<u>21.460%</u>

CUMULATIVE RETURN

*For 20 years ended
June 30, 2002*



Unfunded Liabilities



Recap of Actuarial Status of the System at June 30, 2005

	<u>Assets</u>	<u>Liabilities</u>	<u>Unfunded</u>	<u>Percent</u>
Retirement Benefit	14,598.8	19,134.8	4,536.0	76.3%
Medical Benefit	147.3	4,763.9	4,616.0	3.1%
	<u>14,746.1</u>	<u>23,898.7</u>	<u>9,152.0</u>	

2006 Legislative Proposal Highlights



**I.
Medical
insurance
funding
for retired
teachers**

**II.
Employer
contribution
rate increase
as required
by System's
actuary**

**III.
Cost of
living
increase
(COLA)**

I.

Medical Insurance Funding for Retired Teachers

2004 General Assembly

KRS 161.550(2) established the state medical insurance fund stabilization contribution

- FY 2004-05: \$29,200,000
- FY 2005-06: \$62,000,000

FY 2006-08 Budget Request

- FY 2006-07: \$115,000,000
- FY 2007-08: \$154,000,000

Review of Kentucky Retired Teachers' Health Benefits

Kentucky Retired Teachers' Health Insurance is provided in two plans:

- **Kentucky Employees Health Plan (KEHP)**
For Retirees Under Age 65
- **Medicare Eligible Health Plan (MEHP)**
For Retirees Age 65 & Over

KTRS Medical Insurance Fund-Revenues

KTRS Medical Insurance Fund											
Projected Revenues and Expenditures - (000,000's)								Unaudited			
		Actual	Actual	Actual	Actual	Actual	Actual	3.0%	3.0%	3.0%	3.0%
		1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Covered Payroll		2,074.5	2,173.7	2,251.2	2,352.4	2,505.2	2,598.2	2,686.2	2,767.0	2,850.0	2,936.0
Income											
Active Member Contribu	0.75%	15.7	16.3	16.9	17.7	18.8	19.5	20.2	20.8	21.4	22.0
Payments by Retired Members		18.8	20.1	22.9	27.2	30.8	32.7	31.4	39.1	44.6	55.0
Total Member Contributions		34.5	36.4	39.8	44.9	49.6	52.2	51.6	59.9	66.0	77.0
Employer Matching Cont	0.75%	15.7	16.3	16.9	17.7	18.8	19.5	20.2	20.8	21.4	22.0
Supplemental Funding:	1.65%	30.6	32.6								
	3.25%			75.5	77.6					-	-
	2.25%					58.4					
	1.30%						33.8				
	1.02%							27.4			
Commonwealth Resp Per HB 434								29.2	62.0	-	-
Funding per KRS 161.550(2)										115.0	154.0
Commonwealth Family Subsidy per HB1								2.2	5.7		
Billing Employers for Retirees Returning to Work									6.2	6.2	6.2
Medicare Assistance at Federal Level, Net \$35/Mo (50%)									6.0	12.0	13.8
Total Non-Member Contributions		46.3	48.9	92.4	95.3	77.2	53.3	79.0	100.7	154.6	196.0
Investment Income		2.3	3.7	5.5	7.4	8.5	7.1	6.5	5.9	5.1	5.1
Total		83.1	89.0	137.7	147.6	135.3	112.6	137.1	166.5	225.7	278.1

KTRS Medical Insurance Fund-Expenditures

Expenditures												
			Actual	Actual	Actual	Actual	Actual	Actual	3.0%	3.0%	3.0%	3.0%
			1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
65 and Over / Medicare Eligible Health Plan												
										12.0%	12.0%	12.0%
Self Insured Medical Benefits			15.3	16.8	13.2	18.0	16.3	13.7	21.8	25.1	28.8	33.1
TPA - Processing Fees			2.3	2.4	2.4	2.7	2.7	3.0	3.2	3.4	3.6	3.8
										12.0%	12.0%	12.0%
Self Ins Drug Benefits net rebates			18.0	22.0	25.2	29.7	33.1	35.5	39.0	44.8	51.5	59.1
PBM - Processing Fees			0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
			35.9	41.5	41.0	50.6	52.3	52.4	64.2	73.6	84.2	96.3
Under Age 65 / State Group Health Plan												
			194.50	203.00	221.00	241.00	257.00	287.00	293.00	412.00	489.00	538.00
			4.4%	8.9%	9.0%	6.6%	11.7%	2.1%	40.6%	18.7%	10.0%	10.0%
			203.00	221.00	241.00	257.00	287.00	293.00	412.00	489.00	538.00	592.00
Premium Payments			25.4	26.9	32.9	37.1	43.1	47.8	62.6	87.7	110.3	134.2
State Processing Fees			0.1	0.3	0.7	0.5	0.7	0.8	0.8	1.0	1.2	1.4
Out-of-State Supplements			0.1	0.3	0.3	0.3	0.3	0.3	0.4	0.5	0.6	0.7
Member + Spouse Payments			8.9	11.3	13.3	16.5	19.4	20.2	18.4	24.1	29.6	36.0
			34.5	38.8	47.2	54.4	63.5	69.1	82.2	113.3	141.7	172.3
Total Expenditures			70.4	80.3	88.2	105.0	115.8	121.5	146.4	186.9	225.9	268.6
Net Revenues Over Expenditures			12.7	8.7	49.5	42.6	19.5	(8.9)	(9.3)	(20.4)	(0.2)	9.5
Beginning Fund Balance			32.5	45.2	53.9	103.4	146.0	165.5	156.6	147.3	126.9	126.7
Ending Fund Balance			45.2	53.9	103.4	146.0	165.5	156.6	147.3	126.9	126.7	136.2
Months premiums in reserve			8	8	14	17	17	15	12	8	7	6

Kentucky Teachers' Retirement System

Cost of Single Coverage

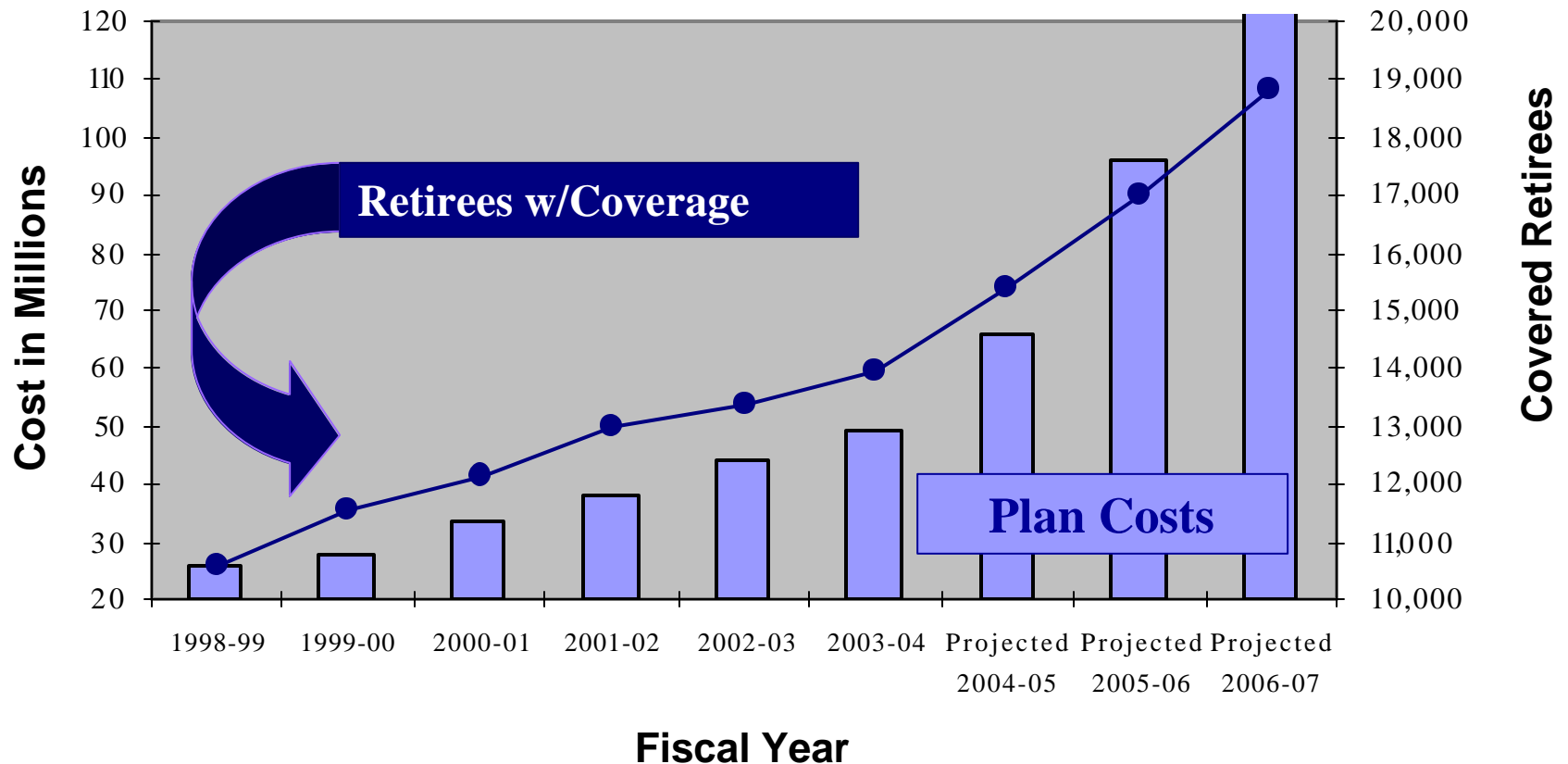
From 1997 to 2004 costs went from \$165 to \$286

Plan Year			
2004		286.16	
2005	43%	409.86	
2006	19%	488.96	171%
2007 Fiscal Year 17.3%	16%	565.00	197%
2008 Fiscal Year 15.2%	15%	648.00	226%

KEHP

For Retirees Under Age 65

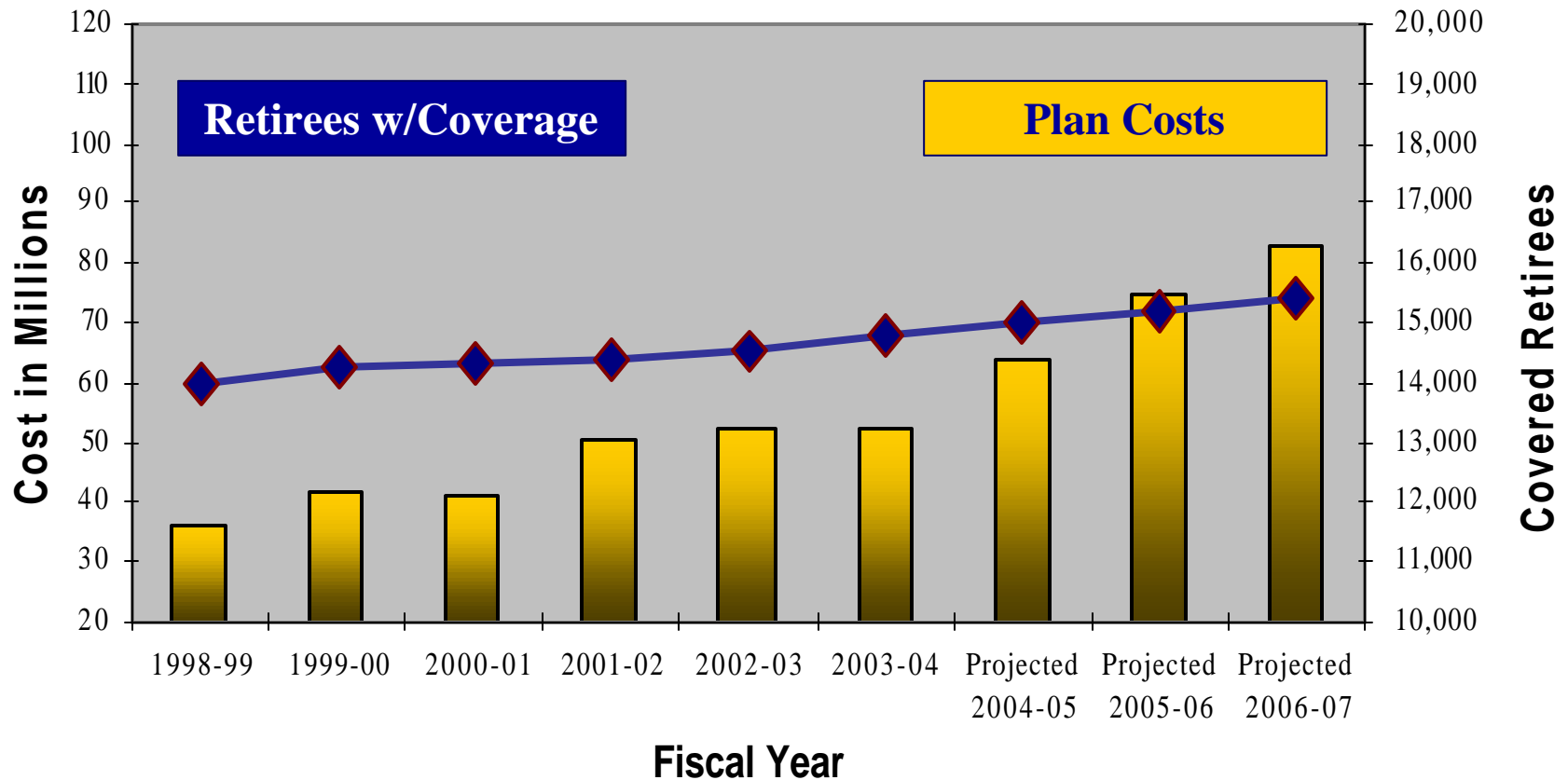
Kentucky Employees Health Plan (KEHP)



MEHP

For Retirees Age 65 & Over

KTRS Medical Eligible Insurance Fund



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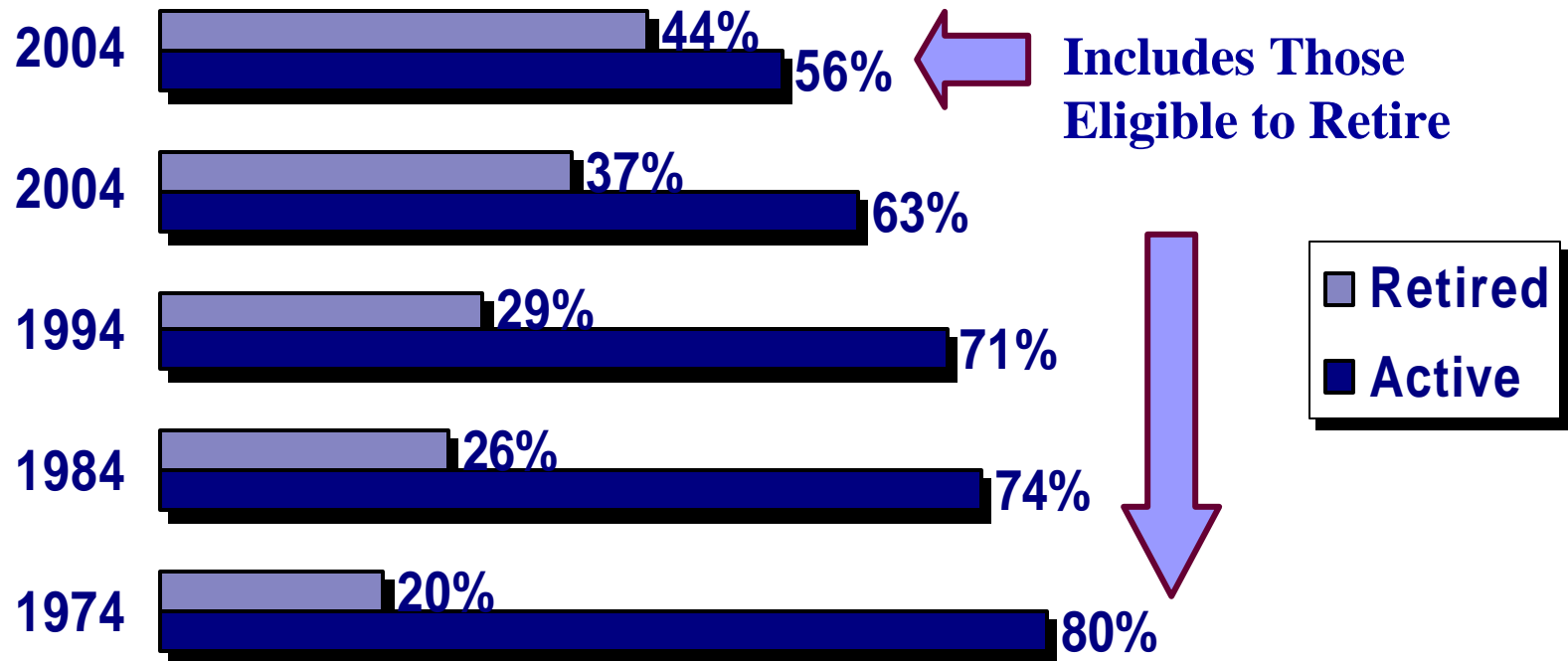
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Assistant:

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KTRS joined
with other
retirement
systems to form
the **Public Sector
Healthcare
Roundtable** to
address retiree
health care costs
on a national
level.

Ratio of Active Teachers to Retired Teachers



	1974	1984	1994	2004	2004
Retired	20%	26%	29%	37%	44%
Active	80%	74%	71%	63%	56%

Distribution of Active Contributing Members

AGE	Local School Districts	TOTAL
20-24	4,474	4,515
25-29	8,276	8,515
30-34	8,823	9,302
35-39	7,969	8,523
40-44	7,832	8,574
45-49	8,776	9,665
50-54	10,033	11,104
55-59	6,956	7,800
60-64	2,654	3,138
65-69	990	1,132
Over 70	557	615
Total	67,340	72,883

AGE
50-54
11,104

Kentucky Teachers' Retirement System

Retirement Trends

Analysis of June, July & August Retirements
2001 vs. 2004 vs. 2005

		2001		2004		2005	
SERVICE	Average Age	<i>Count</i>	<i>Percent</i>	<i>Count</i>	<i>Percent</i>	<i>Count</i>	<i>Percent</i>
< 27 years	59	236	15%	200	15%	237	20%
27 – 27.99 years	52	529	35%	376	27%	308	26%
28 + years	55	770	50%	795	58%	647	54%
		1,535	100%	1,371	100%	1,192	100%



What if medical insurance funding is not provided?

The Commonwealth will incur more costs:

- **The higher salaried personnel postpone retirement**
- **The State will continue to pay medical insurance for active teachers remaining on the job**
- **New teachers are excluded from the job market**

NET POSITIVE FISCAL IMPACT FOR THE STATE WHEN TEACHER NORMALLY RETIRES

Cost if teacher age 55 doesn't retire	3,500.00	7,431.00	10,931.00
Cost when retiring teacher is replaced by new hire	1,500.00	4,351.00	5,851.00
Gross savings to the state			5,080.00
Less cost of retired teacher medical coverage			3,500.00
Net savings to the state when a seasoned teacher chooses to retire			1,580.00

POSITIVE FISCAL IMPACT FOR LOCAL SCHOOL DISTRICTS WHEN TEACHER NORMALLY RETIRES

Average retiring teacher	55.00	30.00	56,700.00
Average new hire	29.00	-	33,200.00
Net savings to the local district when a seasoned teacher chooses to retire			23,500.00

Bottom line:

It likely costs the State more if retiree health care isn't funded under KRS 161.550(2) in that teachers will work longer and in some cases beyond prime conditions. When this happens, the state will pay higher matching retirement contributions and the state still pays the cost of their health care!

Failure to fund KRS 161.550(2) for retiree health care will also greatly impact the school districts. Districts will not be able to hire new teachers at much lower costs thus losing the positive benefit of utilizing excess salary budget for other needed areas.

II.

Employer Contribution Rate Increase as Required by System's Actuary

FY 2006-07:

- \$3,174,600 (0.11%)

FY 2007-08:

- \$39,243,600 (1.32%)

*First request for employer
contribution rate increase since
1988-90 biennium.*

III.

Ad Hoc COLA Request

	FY 2006-07	FY 2007-08
Provided by KTRS	1.50%	1.50%
<hr/>		
Ad Hoc COLA	2.10%	1.00%
Request	\$22,454,600	\$22,454,600
		\$11,417,600
<hr/>		
TOTAL	3.60%	2.50%

***COLAs are needed to keep pace with
cost of inflation.***

Positive Impact of KTRS

- ❖ *For Members*
- ❖ *For School Districts*
- ❖ *For Local & State Economies*

For Members

- Provides retirement and medical benefits which are among the best in the nation.
 - A life-time retirement benefit determined by the member's length of service and salary.
 - A medical benefit provided on a pay-as-you-go basis.
- In some respects, this partly compensates for lower than average salaries.

For School Districts

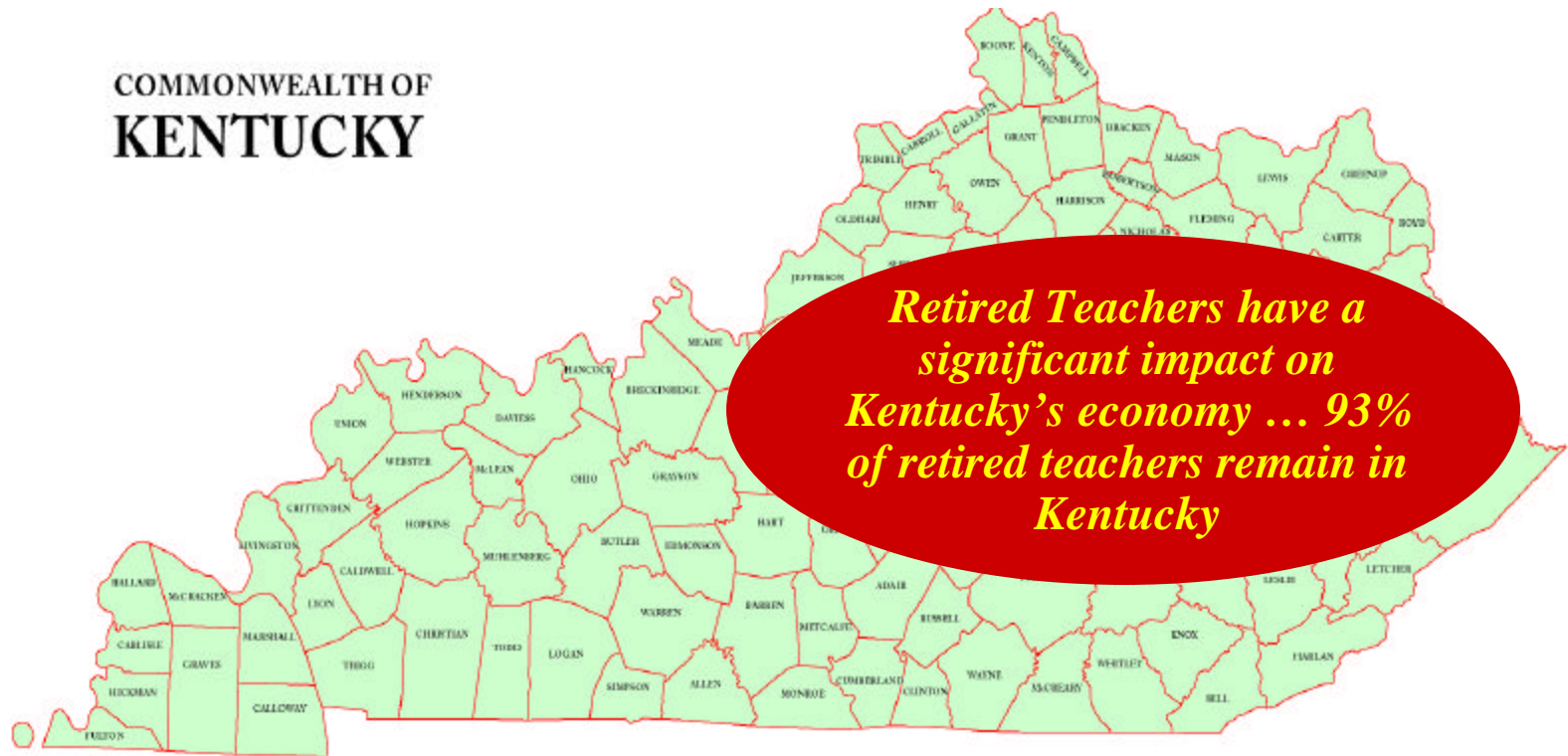
- ❖ Provides a benefit to attract and retain quality teachers.
- ❖ When teachers retire, this provides positions for new teachers and promotions for current teachers.
- ❖ When teachers retire, this reduces payroll costs as retiring teachers are replaced by new teachers.

Savings to Local Districts and Other Employers

Average Retiring Teacher's Pay	\$ 56,700
Average New Teacher Pay	\$ 33,200
<i>----- Difference -----</i>	<i>\$ 23,500</i>
Number of Members Eligible to Retire	13,379
Savings to Local School Districts	\$314 million per year

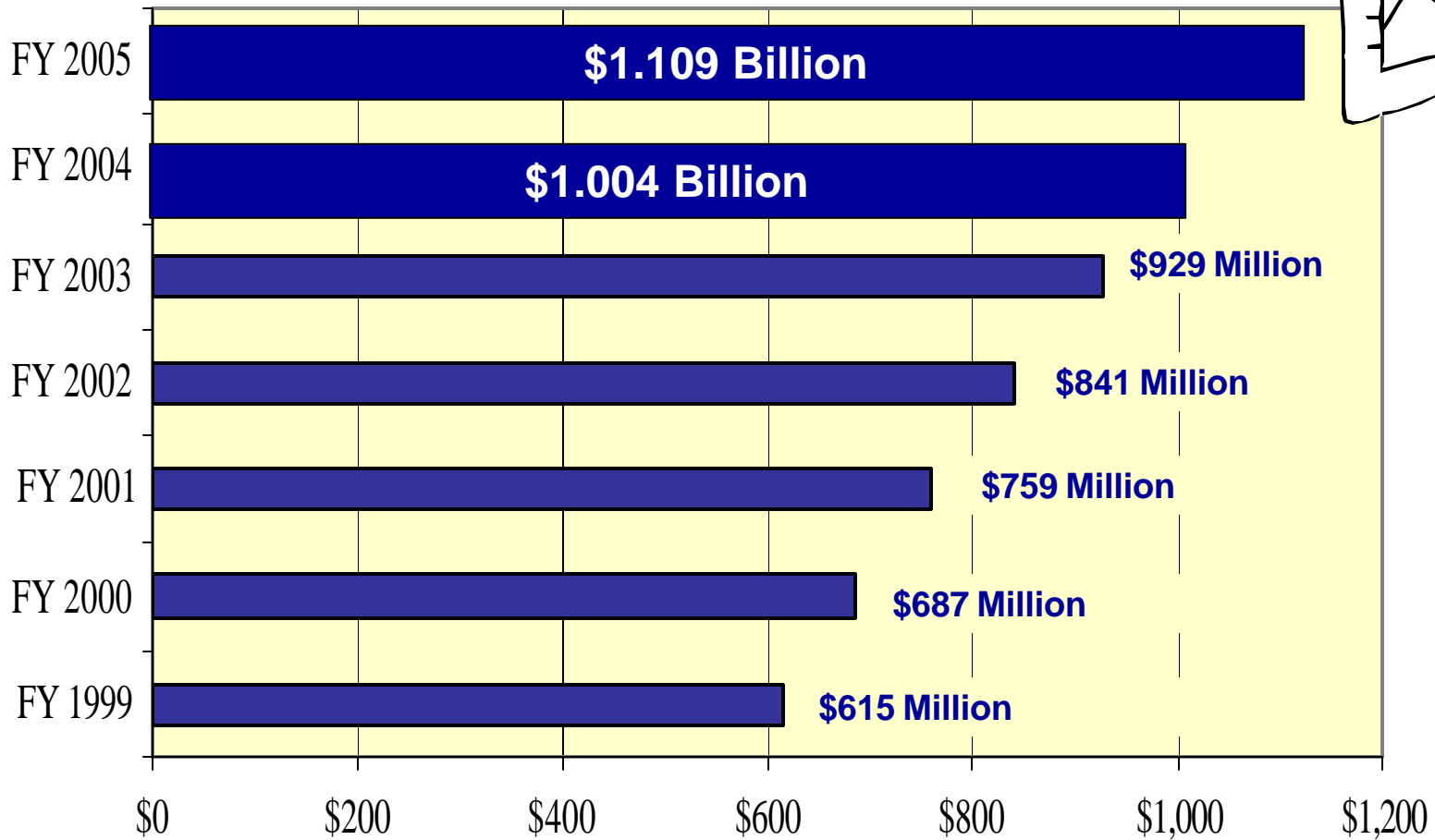
For Local & State Economies

COMMONWEALTH OF
KENTUCKY



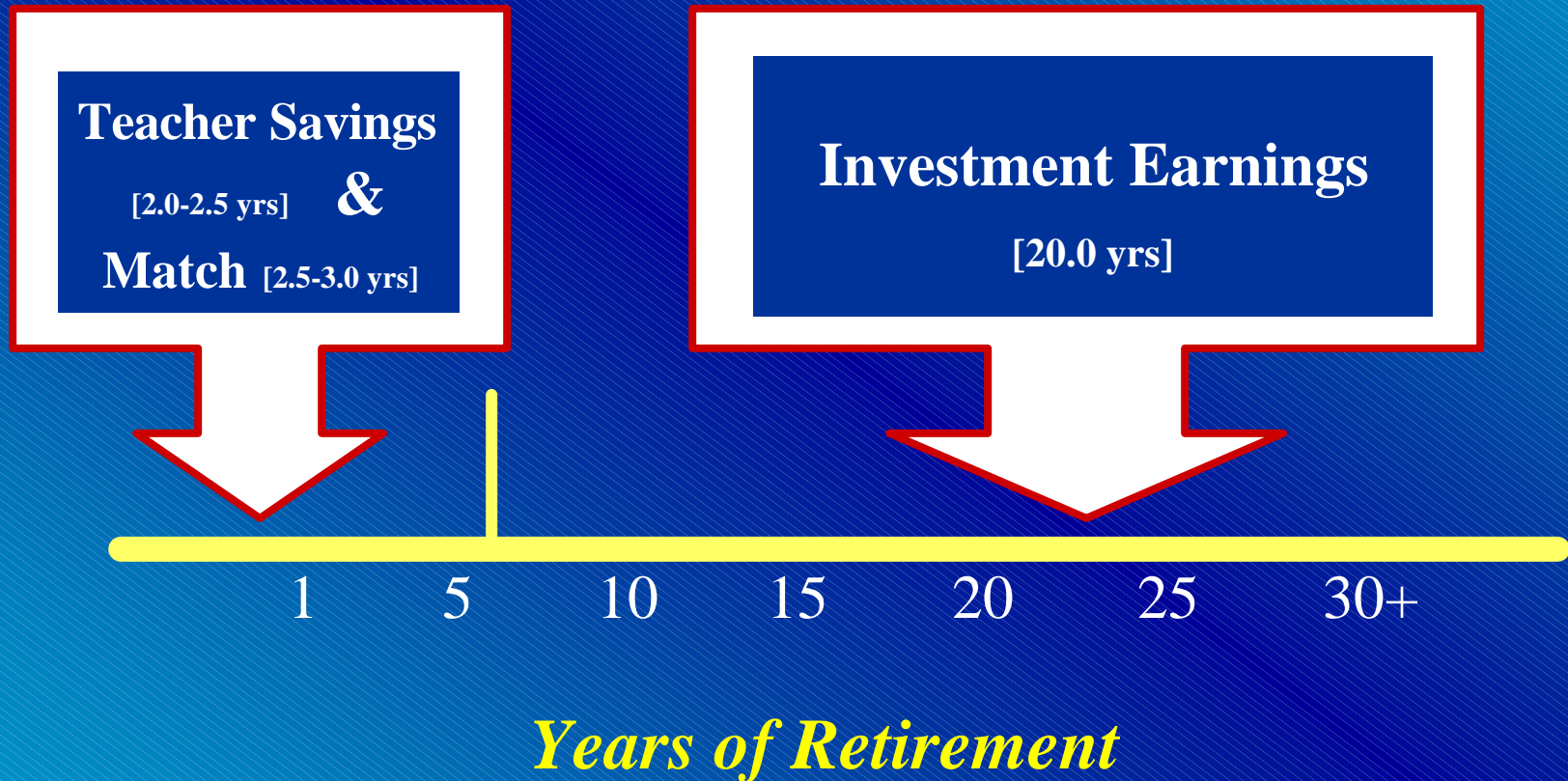
Over the past six years, benefits payments have grown at a compounded rate of 11% per year

KTRS Distributes Hundreds of Millions of Dollars Annually

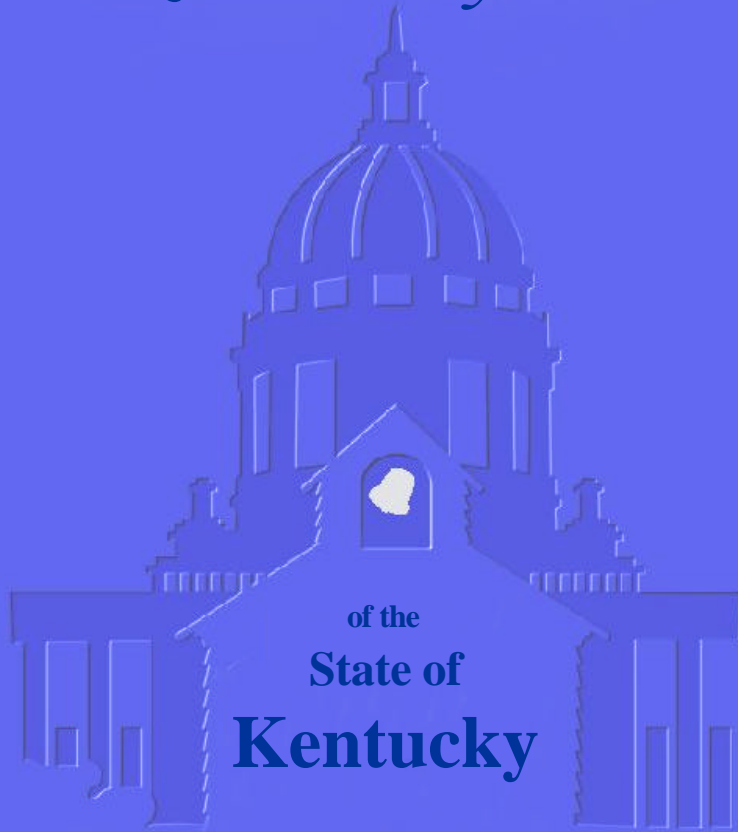


2004 payouts are more than 230% of the employer contributions

Teachers' Savings + Employer Match are Invested & Provide Benefits



Teachers'
Retirement System



***Our Members
Come First!***



Reach us at . . .

1.800.618.1687

502.848.8500

www.ktrs.ky.gov

Protecting & Preserving Teachers' Retirement Benefits